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BEFORE THE ARIZONA CORPORATION COM.

2013 JAN 25 P 3:48

Arizona Corporation Commission

DOCKETED

JAN 25 2013

COMMISSIONERS

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY

[Signature]

IN THE MATTER OF ARIZONA WATER
COMPANY'S AMENDED APPLICATION
FOR AUTHORITY TO IMPLEMENT
STEP-1 (PINWOOD/RIMROCK) AND
STEP-2 (SEDONA) OF THE ARSENIC
COST RECOVERY MECHANISM IN ITS
VERDE VALLEY SYSTEM.

DOCKET NO. W-01445A-08-0440

EXCEPTIONS TO PROPOSED ORDER
AND COMMENTS ON STAFF'S
RECOMMENDATIONS

Arizona Water Company ("the Company") hereby files its comments on the Commission's Utilities Division's ("Staff") Memorandum and Exceptions to the corresponding Recommended Order dated January 18, 2013.

The Company agrees with Staff's Memorandum and corresponding Recommended Order approving the Step-2 arsenic cost recovery mechanism ("ACRM") surcharge for the Sedona portion of its Verde Valley system, but takes exception to the Recommended Order's denial of the recovery of known and measurable arsenic removal costs the Company has incurred in other portions of its Verde Valley system. The Commission previously approved an ACRM for the Company's Northern group, which includes the Verde Valley system, on the grounds that it "...properly balances the need for Arizona Water to remain financially sound with the avoidance of significant rate shock to customers who are affected by the arsenic requirements."¹ Accordingly, the Company requests that the January 18, 2013, Recommended Order be amended to

¹ Decision No. 66400, p. 20, lines 21-22.

1 include the Commission's approval of the Company's proposed Step-1 Rimrock ACRM
2 surcharge, as detailed in its August 23, 2012, Amended Application in this matter and
3 summarized in Attachment A, hereto.

4
5 **Background**

6 On August 25, 2010, the Commission issued Decision No. 71845 (the "Decision")
7 in a general rate proceeding for 18 of the Company's water systems. In the Decision,
8 the Commission ordered full rate consolidation of the Pinewood and Rimrock water
9 systems into a single water system known as Verde Valley which, in turn, partially
10 consolidated with the Sedona system by way of a single, consolidated, basic service
11 charge. Pursuant to the Commission's Decision, the accounting records for the
12 Sedona, Pinewood and Rimrock systems were fully consolidated into the new Verde
13 Valley system. Additionally, the Commission authorized fully-consolidated tariffs and
14 billing records for the Pinewood and Rimrock systems.

15
16 On May 27, 2011, the Commission, by Decision No. 72375, authorized the
17 Company to implement Step-1 of the ACRM for the Sedona portion of the Verde Valley
18 system. The Step-1 ACRM surcharge included only capital-related costs incurred
19 through August 2010 associated with the Company's then-new Valley Vista arsenic
20 treatment facility, which is located in the Sedona portion of the Verde Valley system.

21
22 On June 22, 2012, the Company filed an application to implement Step-2 of the
23 ACRM in its Verde Valley system, in compliance with the conditions established in
24 Decision No. 66400, dated October 14, 2003. By Decision No. 66400, the Commission
25 first authorized the Company to file an ACRM for its Northern group, including the water
26 systems which now comprise the Verde Valley system, and provided the framework for
27 ACRMs routinely processed at the Commission. The Company's June 22, 2012,
28

1 Application included known and measurable arsenic-related capital and operating costs
2 incurred not only in the Sedona portion of the Verde Valley system, but in the Rimrock
3 portion of the Verde Valley system as well. Accordingly, in its June 22, 2012,
4 Application, the Company sought to apply the Step-2 ACRM surcharge to all portions of
5 the Verde Valley system (i.e. Sedona, Pinewood and Rimrock).

6
7 On July 20, 2012, Staff filed a letter in response to the Company's June 22, 2012,
8 Application in this docket requesting that the Company file an amended application for
9 authority to implement Step-2 of the ACRM in its Verde Valley system. According to
10 Staff, the Company's amended application should limit the applicability of the Step-2
11 ACRM surcharge to the Sedona portion of the Verde Valley system.

12
13 On August 1, 2012, the Company met with Staff to discuss, among other matters,
14 the Company's June 22, 2012, Application and Staff's July 20, 2012, response. During
15 that meeting, the Company informed Staff that it had actually incurred additional
16 arsenic-related capital and operating costs in not only the Sedona portion of the Verde
17 Valley system, but in Rimrock as well. In response, Staff requested that the Company
18 file an amended application for authority to implement Step-2 of the ACRM in the
19 Sedona portion of the Verde Valley system to recover only those arsenic-related costs
20 attributable to Sedona, as well as an application for authority to implement Step-1 of the
21 ACRM in the Pinewood and Rimrock portions of the Verde Valley system to recover
22 arsenic-related costs attributable to Rimrock.

23
24 On August 23, 2012, the Company filed its Amended Application for Authority to
25 Implement Step-1 of the ACRM in the Pinewood and Rimrock portions of the Verde
26 Valley system, and Step-2 of the ACRM in the Sedona portion of the Verde Valley
27
28

1 system. In addition, the Company provided schedules supporting an Alternative
2 Consolidated Step-2 Verde Valley ACRM, consistent with its June 22, 2012, application.

3
4 **Staff's January 18, 2013, Memorandum and Recommended Order**

5 In its January 18, 2013, Memorandum and corresponding Recommended Order
6 recommending denial of the recovery of arsenic removal costs in the Rimrock portion of
7 the Verde Valley system, Staff states "...there is no authorization granted by the
8 Commission for the Company to implement a new ACRM for Pinewood and Rimrock in
9 Docket No. W-01455A-08-0440, rendering the Company's amended filing for a Step-
10 One ACRM and alternative Step-Two ACRM for Sedona invalid."² However, as
11 discussed below, the Commission has already approved ACRM surcharges for
12 Rimrock, and Decision No. 71845 did not preclude the authorization of future ACRM
13 surcharges designed to recover known and measurable costs related to arsenic
14 removal for that system.

15
16 **Decision No. 66400 Authorized an ACRM for the Company's Northern Group**

17 On October 14, 2003, the Commission entered Decision No. 66400 in the second
18 phase of a general rate proceeding for the Company's Northern Group ("Phase Two").
19 Phase Two developed and adopted a procedure for the Company to recover costs
20 incurred to comply with the new Maximum Contaminant Level for arsenic imposed by
21 the U.S. Environmental Protection Agency under the Safe Drinking Water Act (the "New
22 Arsenic MCL"). By Decision No. 66400, the Commission authorized an ACRM for the
23 Company's Northern Group, which includes the service areas that now comprise the
24 Verde Valley system.

25
26
27
28 ² Recommended Order, p. 5, lines 18 – 21.

1 Subsequent to Decision No. 66400, the Commission authorized four ACRM
2 surcharges in the Sedona and Rimrock systems. Decision No. 69883, dated August 28,
3 2007, authorized Step-1 ACRM surcharges in both the Sedona and Rimrock systems.
4 Decision No. 70834, dated March 17, 2009, authorized a Step-2 ACRM surcharge in the
5 Sedona system, and Decision No. 70962, dated April 7, 2009, authorized a Step-2
6 ACRM surcharge in the Rimrock system. Decision Nos. 69883, 70834 and 70962 were
7 each issued prior the consolidation of the Sedona, Pinewood and Rimrock systems into
8 the new Verde Valley system.

9
10 On August 22, 2008, the Company filed a general rate case ("2008 rate case")
11 for 18 of its water systems that culminated in Decision No. 71845, dated August 24,
12 2010. The 2008 rate case satisfied a compliance provision of Decision No. 66400,
13 which required the Company to file a general rate case for its Northern group in order to
14 "true-up" the arsenic-related costs associated with the ACRM surcharges approved in
15 Decision Nos. 69883, 70834 and 70962. As a result, those previously approved ACRM
16 surcharges were eliminated and the corresponding costs rolled into base rates.
17 However, the true-up and subsequent elimination of the previous surcharges for the
18 Sedona and Rimrock systems did not eliminate the Company's requirement to continue
19 to comply with the New Arsenic MCL. Since Decision No. 71845, the Company has
20 incurred over \$4.5 million in additional arsenic treatment-related costs above the
21 amount currently reflected in base rates in the Verde Valley system alone, over \$1.4
22 million of which is attributable to the Rimrock area. While the ordering paragraph
23 authorizing future ACRMs on page 93, lines 19-22 of Decision No. 71845 only
24 specifically mentions the Sedona and Superstition systems, it does not preclude the
25 authorization of additional ACRM surcharges to the extent those surcharges comply
26 with the framework and provisions of Decision No. 66400. What's more, the Balance
27 Sheet, Income Statement, Earnings Test, Rate Review and prior Fair Value finding for
28

1 the Verde Valley system, which Staff has accepted in its review and recommendation
2 for approval of the Company's proposed Step-2 Sedona ACRM surcharge, are equally
3 applicable to the Company's proposed Step-1 Rimrock ACRM surcharge. Finally, the
4 benefits cited by the Commission in Decision No. 66400, that the ACRM "...properly
5 balances the need for Arizona Water to remain financially sound with the avoidance of
6 significant rate shock to customers who are affected by the arsenic requirements," are
7 as valid today as when the Commission authorized the first ACRM surcharge for
8 Rimrock in 2007.

9
10 **The Arsenic Removal Facilities Located in the Rimrock Portion of the Verde**
11 **Valley System are Used and Useful and the Costs are Known and Measurable**

12 In its June 22, 2012, Application, and again in its August 23, 2012, Amended
13 Application, the Company provided information detailing the actual capital and operating
14 costs associated with arsenic removal facilities in the Rimrock portion of the Verde
15 Valley system. In addition, the Company provided Staff and RUCO with copies of
16 supporting documentation, including invoices, related to such costs.

17
18 On August 1, 2012, the Company filed a general rate case for its Northern group
19 in Docket No. W-01445A-12-0348, in which the Company proposes to include in base
20 rates all of the arsenic-related costs that are the subject of this proceeding. To this end,
21 the Company made all supporting documentation available to Staff and RUCO. On
22 October 22, 2012, Staff's engineer inspected each Northern Group facility currently in
23 service, including those arsenic facilities that are the subject of this proceeding. To
24 date, neither Staff nor RUCO has indicated that the arsenic-removal facilities located in
25 the Rimrock portion of the Verde Valley system are not used and useful, or the
26 corresponding costs imprudent.

The Commission Authorized the Consolidation of the Sedona, Pinewood and Rimrock Systems

In its Recommended Order, Staff states that "...the Commission had not authorized consolidation of rates for the three systems AWC refers to as its Verde Valley system."³ This statement is not correct, as Decision No. 71845, Finding of Fact No. 71 states, "AWC's rate consolidation proposal is, with full rate consolidation of the Superstition and Miami systems; Lakeside and Overgaard systems; *Pinewood and Rimrock systems*; and Casa Grande and Coolidge systems; as well as partial consolidation of the Bisbee and Sierra Vista systems; *Sedona and Pinewood/Rimrock systems*; and Stanfield and Casa Grande/Coolidge systems; just and reasonable."⁴ Further, on page 50, lines 3 – 4 of Decision No. 71845 the Commission stated, "We find that rate consolidation based on AWC's proposal should be adopted in this proceeding." In describing the Company's rate consolidation proposal in that decision, the Commission said the following:

"The Company proposes to establish common monthly minimum charges for the Sedona, Pinewood, and Rimrock systems in this case, and the same commodity rates for the Rimrock and Pinewood systems. Under AWC's proposal, full consolidation with the Sedona system would be sought by the Company in a future case. Mr. Harris stated that all three systems share a common regional water supply, and management and operating personnel." (*Id.*)⁵

Accordingly, the Company subsequently filed consolidated financial data for the Commission-authorized Verde Valley system, including consolidated billing data for the

³ Recommended Order, p. 2, lines 7 – 9.

⁴ Decision No. 71845, page 84, lines 16 – 20.

⁵ Decision No. 71845, page 46, lines 6 – 10.

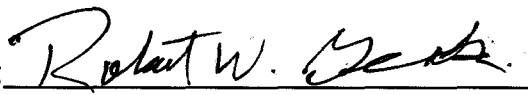
1 Pinewood and Rimrock portions of that system, in this proceeding as well as in the
2 pending general rate case for the Northern Group, and Staff has accepted such
3 consolidated data.

4
5 **Conclusion**

6 As detailed above, the Company takes exception to the Recommended Order's
7 denial of the recovery of known and measurable arsenic removal costs in the Rimrock
8 portion of the Verde Valley system. The Commission has previously approved an
9 ACRM for the Company's Northern group, which includes the Verde Valley system, on
10 the grounds that it "...properly balances the need for Arizona Water to remain financially
11 sound with the avoidance of significant rate shock to customers who are affected by the
12 arsenic requirements."⁶ Accordingly, the Company requests that the Recommended
13 Order be amended to include Commission approval of the Company's proposed Step-1
14 Rimrock ACRM surcharge, as detailed in its August 23, 2012, Amended Application in
15 this matter and summarized in Attachment A, hereto.

16
17 RESPECTFULLY SUBMITTED this 25th day of January, 2013.

18 ARIZONA WATER COMPANY

19
20
21 By: 
22 Robert W. Geake
23 Vice President and General Counsel
24 ARIZONA WATER COMPANY
25 Post Office Box 29006
26 Phoenix, Arizona 85038-9006
27

28 ⁶ See Footnote 1.

1 An original and 13 copies of the foregoing were delivered this 25th day of January,
2 2013, to:

3 Docketing Supervisor
4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, AZ 85007

8 A copy of the foregoing was mailed this 25th day of January, 2013, to:

9 Lyn Farmer, Chief Administrative Law Judge
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12 1200 West Washington
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14 Janice Alward, Chief Counsel
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Phoenix, AZ 85007

By: 

ATTACHMENT A

ARIZONA WATER COMPANY

Docket No. W-01445A-08-0440

Verde Valley (Rimrock/Pinewood) Step-1 Arsenic Cost Recovery Mechanism ("ACRM")

Summary - Base Rates & ACRM Surcharge

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Current Base Rates Per Decision No. 71845						
Meter	Minimum	Surcharge	Commodity Rate per 1,000 Gallons Consumed			
Size						
1/2" x 1/2"	\$	23.10	0-3,000 gals. - \$3,389.1; 3,001-10,000 gals. - \$4,236.1; gals. over 10,000 - \$5,295.4			
1"		57.75	0-10,000 gals. - \$4,236.1; gals. over 10,000 - \$5,295.4			
2"		184.81	0-125,000 gals. - \$4,236.1; gals. over 125,000 - \$5,295.4			
3"		369.62	0-298,000 gals. - \$4,236.1; gals. over 298,000 - \$5,295.4			
4"		577.54	0-493,000 gals. - \$4,236.1; gals. over 493,000 - \$5,295.4			
6"		1,155.07	0-925,000 gals. - \$4,236.1; gals. over 925,000 - \$5,295.4			
8"		1,848.12	0-1,500,000 gals. - \$4,236.1; gals. over 1,500,000 - \$5,295.4			
10"		2,656.67	0-2,262,000 gals. - \$4,236.1; gals. over 2,262,000 - \$5,295.4			

ACRM Surcharge - Capital & Recurring O&M						
Meter	Minimum	Surcharge	Commodity Surcharge per 1,000 Gallons Consumed			
Size						
1/2" x 1/2"	\$	1.32	All gals. - \$0.5134			
1"		3.30	All gals. - \$0.5134			
2"		10.56	All gals. - \$0.5134			
3"		21.12	All gals. - \$0.5134			
4"		33.00	All gals. - \$0.5134			
6"		66.00	All gals. - \$0.5134			
8"		105.60	All gals. - \$0.5134			
10"		151.80	All gals. - \$0.5134			

ACRM Surcharge - Deferred O&M (Eliminated After 12-Months)						
Meter	Minimum	Surcharge	Commodity Surcharge per 1,000 Gallons Consumed			
Size						
1/2" x 1/2"	\$	0.63	All gals. - \$0.2441			
1"		1.58	All gals. - \$0.2441			
2"		5.04	All gals. - \$0.2441			
3"		10.08	All gals. - \$0.2441			
4"		15.75	All gals. - \$0.2441			
6"		31.50	All gals. - \$0.2441			
8"		50.40	All gals. - \$0.2441			
10"		72.45	All gals. - \$0.2441			

ARIZONA WATER COMPANY

Docket No. W-01445A-08-0440

Verde Valley (Rimrock/Pinewood) Step-1 Arsenic Cost Recovery Mechanism ("ACRM")

Summary - Base Rates & ACRM Surcharge

ATTACHMENT A

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Line No.	COMMERCIAL					
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Current Base Rates Per Decision No. 71845						
Meter	Minimum	Charge	Commodity Rate per 1,000 Gallons Consumed			
Size						
1/2" x 1/4"	\$	23.10	0-10,000 gals. -	\$4,2361; gals. over 10,000 -	\$5,2954	
1"		57.75	0-40,000 gals. -	\$4,2361; gals. over 40,000 -	\$5,2954	
2"		184.81	0-125,000 gals. -	\$4,2361; gals. over 125,000 -	\$5,2954	
3"		369.62	0-298,000 gals. -	\$4,2361; gals. over 298,000 -	\$5,2954	
4"		577.54	0-493,000 gals. -	\$4,2361; gals. over 493,000 -	\$5,2954	
6"		1,155.07	0-925,000 gals. -	\$4,2361; gals. over 925,000 -	\$5,2954	
8"		1,848.12	0-1,500,000 gals. -	\$4,2361; gals. over 1,500,000 -	\$5,2954	
10"		2,656.67	0-2,262,000 gals. -	\$4,2361; gals. over 2,262,000 -	\$5,2954	

ACRM Surcharge - Capital & Recurring O&M						
Meter	Minimum	Surcharge	Commodity Surcharge per 1,000 Gallons Consumed			
Size						
1/2" x 1/4"	\$	1.32	All gals. -	\$0.5134		
1"		3.30	All gals. -	\$0.5134		
2"		10.56	All gals. -	\$0.5134		
3"		21.12	All gals. -	\$0.5134		
4"		33.00	All gals. -	\$0.5134		
6"		66.00	All gals. -	\$0.5134		
8"		105.60	All gals. -	\$0.5134		
10"		151.80	All gals. -	\$0.5134		

ACRM Surcharge - Deferred O&M (Eliminated After 12-Months)						
Meter	Minimum	Surcharge	Commodity Surcharge per 1,000 Gallons Consumed			
Size						
1/2" x 1/4"	\$	0.63	All gals. -	\$0.2441		
1"		1.58	All gals. -	\$0.2441		
2"		5.04	All gals. -	\$0.2441		
3"		10.08	All gals. -	\$0.2441		
4"		15.75	All gals. -	\$0.2441		
6"		31.50	All gals. -	\$0.2441		
8"		50.40	All gals. -	\$0.2441		
10"		72.45	All gals. -	\$0.2441		

ARIZONA WATER COMPANY

Docket No. W-01445A-08-0440

Verde Valley (Rimrock/Pinewood) Step-1 Arsenic Cost Recovery Mechanism ("ACRM")

Summary - Base Rates & ACRM Surcharge

ATTACHMENT A

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Line No.	INDUSTRIAL				
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Current Base Rates Per Decision No. 71845

Meter	Minimum	Surcharge	Commodity Rate per 1,000 Gallons Consumed
Size			
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ACRM Surcharge - Capital & Recurring O&M

Meter	Minimum	Surcharge	Commodity Surcharge per 1,000 Gallons Consumed
Size			
1/2" x 1/4"			
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ACRM Surcharge - Deferred O&M (Eliminated After 12-Months)

Meter	Minimum	Surcharge	Commodity Surcharge per 1,000 Gallons Consumed
Size			
1/2" x 1/4"			
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ARIZONA WATER COMPANY

Docket No. W-01445A-08-0440

Verde Valley (Rimrock/Pinewood) Step-1 Arsenic Cost Recovery Mechanism ("ACRM")

Summary - Base Rates & ACRM Surcharge

ATTACHMENT A

Page 4 of 5

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Current Base Rates Per Decision No. 71845				
Meter Size	Minimum Charge	Commodity Rate per 1,000 Gallons Consumed		
2"	\$ 184.81	0-125,000 gals. - \$4.2361; gals. over 125,000 - \$5.2954		
3"	369.62	0-298,000 gals. - \$4.2361; gals. over 298,000 - \$5.2954		
4"	577.54	0-500,000 gals. - \$4.2361; gals. over 500,000 - \$5.2954		

ACRM Surcharge - Capital & Recurring O&M				
Meter Size	Minimum Surcharge	Commodity Surcharge per 1,000 Gallons Consumed		
2"	10.56	All gals. - \$0.5134		
3"	21.12	All gals. - \$0.5134		
4"	33.00	All gals. - \$0.5134		

ACRM Surcharge - Deferred O&M (Eliminated After 12-Months)				
Meter Size	Minimum Surcharge	Commodity Surcharge per 1,000 Gallons Consumed		
2"	5.04	All gals. - \$0.2441		
3"	10.08	All gals. - \$0.2441		
4"	15.75	All gals. - \$0.2441		

ARIZONA WATER COMPANY

Docket No. W-0144SA-08-0440
Verde Valley (Rimrock/Pinewood) Step-1 Arsenic Cost Recovery Mechanism ("ACRM")
Summary - Base Rates & ACRM Surcharge

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Current Base Rates Per Decision No. 71845				
Meter	Size	Charge	Commodity Rate per 1,000 Gallons Consumed	
	1"	\$ 23.10	All gals. - \$4.2361	
	2"	57.75	All gals. - \$4.2361	
	3"	184.81	All gals. - \$4.2361	
	4"	369.62	All gals. - \$4.2361	
	6"	577.54	All gals. - \$4.2361	
	8"	1,155.07	All gals. - \$4.2361	
	10"	1,848.12	All gals. - \$4.2361	
		2,656.67	All gals. - \$4.2361	

ACRM Surcharge - Capital & Recurring O&M				
Meter	Size	Surcharge	Commodity Surcharge per 1,000 Gallons Consumed	
	1"	\$ 1.32	All gals. - \$0.5134	
	2"	3.30	All gals. - \$0.5134	
	3"	10.56	All gals. - \$0.5134	
	4"	21.12	All gals. - \$0.5134	
	6"	33.00	All gals. - \$0.5134	
	8"	66.00	All gals. - \$0.5134	
	10"	105.60	All gals. - \$0.5134	
		151.80	All gals. - \$0.5134	

ACRM Surcharge - Deferred O&M (Eliminated After 12-Months)				
Meter	Size	Surcharge	Commodity Surcharge per 1,000 Gallons Consumed	
	1"	\$ 0.63	All gals. - \$0.2441	
	2"	1.58	All gals. - \$0.2441	
	3"	5.04	All gals. - \$0.2441	
	4"	10.08	All gals. - \$0.2441	
	6"	15.75	All gals. - \$0.2441	
	8"	31.50	All gals. - \$0.2441	
	10"	50.40	All gals. - \$0.2441	
		72.45	All gals. - \$0.2441	